

## ACCOUNTING POLICY

TOPIC: Revenues and Refunds 1.0	EFFECTIVE DATE: 9/27/85
TITLE: Accounting for Revenues and Refunds of Expenditure	REVISION DATE: 3/14/97
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### INTRODUCTION

This policy establishes criteria for proper classification of revenues and refunds of expenditure.

A clear distinction needs to be made between revenues and refunds of expenditures in order to comply with generally-accepted accounting principles, the appropriation structure, and statutory restrictions on refunds of expenditure.

When a receipt or refund is received, two questions should be asked:

- a. Is the transaction a revenue or a refund of expenditure?
- b. If criteria for refunds of expenditure are met, what is the proper accounting treatment, given the appropriation type and fiscal year?

This policy provides guidance in classifying revenues and refunds of expenditures, and specific procedures are established to insure the refunds are handled uniformly throughout the Department and that the procedures are in conformance with statutory intent, budgetary practices and new Department of Administration (DOA) standards.

### BACKGROUND

Proper classification of revenues and refunds of expenditure require consideration of three factors:

1. Generally-accepted accounting principles
2. The State of Wisconsin appropriation structure
3. Accounting period (state fiscal year).

Each of these factors are discussed below.

**Generally-accepted Accounting Principles.** Revenues are generated as the result of delivering or producing goods, rendering services, or other activities related to an organization's ongoing major or central operations. Revenues are recognized as the result of an earnings process that is completed and an exchange that has taken place. In addition, miscellaneous revenues may be generated by occasional sales, by the sale of surplus equipment, or by unanticipated income. Revenue is always recognized as revenue regardless of when received.

In contrast, refunds of expenditure are adjustments of amounts previously paid. The most common type of refund of expenditure involves overpayments to vendors, in the same fiscal year, where a check may be redeposited or a vendor returns all or a portion of an incorrect payment.

### **The State Appropriations and Accounting Process**

Revenues are to be deposited in the appropriate revenue account depending upon the program structure and activity.

Wisconsin Statutes section 20.001 (4) defines GPR-Earned as revenue which is received by a state agency incidentally in connection with general purpose appropriations in the course of accomplishing program objectives and for which no program revenue appropriation is made. GPR-Earned is treated as a non-appropriated receipt and is not available for expenditure.

Refund of expenditure is defined by Wisconsin Statutes 20.001 (5). Refunds of expenditures are amounts received by a state agency:

1. as the result of an adjustment due to activities that are of a temporary nature or activities that could not be anticipated during budget development and
2. that reduce or eliminate a previously recorded expenditure in the same fiscal year in which the previously recorded expenditure was made.

A refund of expenditure shall be deposited by the receiving state agency in the appropriation account from which the previously recorded expenditure was made.

The Department of Administration designates amounts and/or types of proposed refunds of expenditure.

### **Timing Considerations for Refunds of Expenditure**

The accounting treatment of refunds of expenditure depends: (a) on whether the refund is the result of a current year expenditure or (b) on the appropriation type if the refund is the result of a prior-year expenditure.

Wisconsin Statutes s. 20.001 (5) indicates that any refunds of expenditures to sum-certain appropriations in the same fiscal year as the expenditure was made should be coded as a refund of expenditure in the same appropriation as the original expenditure.

Generally, refunds of expenditure in the same fiscal year are coded as refunds of expenditure to the same appropriation as previously recorded. However, certain prior-year refunds of expenditure (namely, GPR sum certain, GPR biennial, PR continuing and SEG continuing) are treated as revenues due to the appropriation type and statutory provisions. Prior fiscal year refunds of expenditure for GPR sum certain and GPR biennial appropriations are coded as GPR-Earned (non-appropriated receipts) and are not available for expenditure.

Prior fiscal year refunds of expenditure for PR annual and SEG annual appropriations are coded to miscellaneous revenue.

## **POLICY**

1. All centralized and decentralized accounting units are to implement State and Department policies and procedures regarding proper accounting treatment of revenues and refunds of expenditure.

All transactions for invoice vouchers, journal vouchers, and deposit vouchers must be consistent with this policy and properly authorized and signed. DHFS staff involved in classifying receipts are responsible to identify transactions that may be inconsistent with this policy and notify the Deputy Director, Bureau of Fiscal Services, prior to recording the transaction.

BFS staff are to apply these policies in preparing, processing and/or reviewing transactions.

2. Proper accounting treatment of revenues and refunds of expenditure require that:
  - a. All revenues, including miscellaneous or incidental revenue, should be deposited to the respective appropriation and revenue source regardless of fiscal year received. Revenues are recognized based upon the earning process and/or the appropriation structure. Occasional sales and incidental receipts are coded as miscellaneous revenue or GPR-Earned. GPR-Earned is treated as a non-appropriated receipt and is not available for expenditure.
  - b. Generally, refunds of expenditure reduce or eliminate previously recorded expenditures in the same fiscal year in which the previously recorded expenditure was made. Refunds of expenditure must be coded based on the appropriation in which the previously recorded expenditure was recorded. All refunds of expenditure must meet criteria detailed in #3 below.

Certain prior-year refunds of expenditure must be coded as revenues due to the appropriation structure and statutory provisions (GPR sum certain and GPR biennial, PR annual and SEG annual). Follow guidance outlined in the attachment "Coding for Refunds of Expenditure."

3. **Only the following types of refunds of expenditure are permitted:**
  - a. **Vendor Overpayments.** Receipts from vendors, including other units within DHFS or other state agencies, within the same fiscal year

due to overpayment or incorrect payment. Incorrect payment may be the result of an error in processing, incorrect vendor invoice, or a mis-addressed check. Overpayment may include discounts not previously taken, credits not previously applied or settlement of disputes over the quality or quantity of goods or services provided.

- b. **Outside Reimbursement of Certain Travel Expense.** Employee travel or training expenses required by and reimbursed by an external organization, such as a federal agencies, professional or philanthropic organizations, and which cannot be recorded in a program revenue appropriation. In this situation, DHFS staff are reimbursed for travel and training costs by an outside organization that does not issue a grant award to the Department but rather provides a letter authorizing the employee to travel or attend training. Generally a dollar limit is provided.

Under **APP TRAVEL 5.0 (Reimbursement of Costs to Employees Outside of State Agencies)**, all remuneration received by employees as part of their official duties is to be deposited with the State Treasurer, and all employee travel reimbursement is to be at the standard rates specified in the *Uniform Travel Schedule Amounts (UTSA)*.

DHFS claims reimbursement from the outside organization in the amount reimbursed to the employee. The payment from the outside organization is recorded as a refund of expenditure up to the amount previously paid. Any amount paid over the amount claimed (such as may occur with per diem reimbursement) is to be recorded as GPR-Earned or miscellaneous revenue in a program appropriation.

- c. **Refunds of pre-payments made under aids contract.** Prepayments are made to agencies in accordance with certain aids contracts. Prepayments are for the purpose of providing funding for the period of time between incurred cost by the agency and reimbursement by DHFS through the payment system. Due to system limitations, prepayments are recorded in FMS as an expenditure rather than a prepaid expense (asset). Prepayments may be recovered from contracting agencies by establishing a receivable and:
1. Offsetting amounts due against current or future contracts; or
  2. Receiving a direct payment of amounts due from the provider.

In both situations, a refund of expenditure is recorded.

- d. **Medical Assistance Collections.** Medical assistance collections include third party liability collections, probate collections, collections due to recoveries from fraud and abuse, collections on

liens, provider repayments, drug rebates, and recoveries from quality control activities.

Currently, these collections are reported as refunds of expenditures and are budgeted for accordingly. Estimated collections are subtracted from estimated gross program expenditures to calculate the amount of GPR and PR-F needed for expenditure. Since Medical Assistance is funded by both state and federal funds, federal requirements for reporting federal share as a reduction of expenditure has been applied to Medical Assistance Collections.

- e. **Receipts Subject to Federal Regulations.** WIC Formula and other rebates as required by federal regulations, guidelines or instructions may be treated as a refund of expenditure. Federal reporting requirements dictate that rebates received be reported as a reduction from total federal expenditures reported. Rebates are applied to the same federal fiscal year as the original expenditure. Recording of the rebate as a refund of expenditure in the accounting system is consistent with how we report to the federal grantor agency. State participation in the federal program is contingent upon compliance with applicable regulations, guidelines and instructions.
- f. **Clearing or Correcting Entries.** Currently, clearing entries are used to transfer expenditures from a clearing account in which they are originally recorded to the appropriate account by means of a distribution of expenditure made subsequent to original recording. These clearing entries, which are treated as refunds of expenditure, are needed to properly account for distribution of expenditures.

Correcting entries may be treated as refunds of expenditure when an error has been made in processing or posting accounts.
- g. **Receipts for Payments Made on Behalf of Institution Residents.** Payments are made by the institutions on behalf of their residents. The residents' accounts then are used to reimburse the institution. Payments are made by the institutions as a convenience. The purchases could be made with the residents' funds directly.
- h. **Union Reimbursement of Personnel Costs for Staff Involved in Union Activities.** Under contract, the unions are required to reimburse DHFS for the costs of staff involved in specified union activities. Where the employing unit finds it necessary to schedule someone else to work the shift of the employee attending the specified union activities, thus incurring additional personnel costs, the receipts from the Unions may be recorded as refund of expenditures.

- 4. **The following situations do not allow the recording of refunds of expenditure:**

- a. Receipts from the sale of vehicles and other equipment are to be recorded as revenues. The State Bureau of Financial Operations has expressly ruled that receipts from the sale of vehicles (when purchased in a prior fiscal year) are to be recorded as either GPR-Earned or miscellaneous revenues. Under no circumstances may receipts from the sale of vehicles be recorded as a refund of expenditure. The State Bureau of Financial Operations requires that all receipts from the sale of vehicles recorded as refund of expenditure be reversed and properly recorded as revenues, effective July 1, 1993.
  - b. Copy charges, data processing charges, and staff salary charges related to the Public Records Law **may not** be considered refunds of expenditure. **All receipts from copy charges and data processing costs must be recorded as revenues.** Under prior policy, five (5) cents of the fifteen (15) cent charge was permitted to be recorded as a refund of expenditure (APP Revenues and Refunds 3.0) for GPR appropriations, and ten (10) cents was credited to GPR-Earned. Due to the large number of small transactions involved, the effective date for this change only is July 1, 1994.
  - c. **Reimbursements for Damages from Staff or Residents.** This is comparable to insurance payments and does not qualify for treatment as a refund of expenditure.
5. Any exception to this policy must be approved in writing by the Deputy Director, Bureau of Fiscal Services.
  6. The attached chart, "Coding for Refunds of Expenditures," indicates the approved standard for handling refunds of expenditures in a number of situations and time frames. The actual appropriation language or federal regulation should be reviewed for any special provisions. If none, these standards will apply.

Any deviation from this chart will require approval from the Deputy Director of the Bureau of Fiscal Services. These standards should be applied for (1) return of overcharges of goods and services, (2) audit disallowances or refunds from grantees or (3) correction of cost allocations.

#### **REFERENCES**

*Wisconsin Statutes, sections 20.001 (4) and 20.001 (5)*  
*DOA External Accounting Manual, III, C, 1, c.*

**REVENUES AND EXPENDITURES 3.0 (Accounting and Data Processing Charges)**  
**AUDIT 6.0 (Financial Coverage for Disallowances)**

#### **CONTACT PERSON**

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**CODING FOR REFUNDS OF EXPENDITURES\***

<b>Appropriation Type</b>	<b>Period of Refund</b>	<b>Proper Accounting Transaction</b>
GPR-Sum Certain	Current SFY Prior SFY	Refund of Expenditure GPR Earned
GPR-Sum Sufficient	Current SFY Prior SFY	Refund of Expenditure Refund of Expenditure
GPR-Biennial	Current Biennium Prior Biennium	Refund of Expenditure GPR Earned
PR Annual	Current SFY Prior SFY	Refund of Expenditure Revenue
PR Continuing	Current SFY Prior SFY	Refund of Expenditure Refund of Expenditure
PRF	Current FFY Grant Period Prior FFY Grant Period Overmatch paid from GPR No Overmatch	Refund of Expenditure  GPR Earned (Excess Fed) Return to Feds
SEG-Revolving** (Annual)	Current SFY Prior SFY	Refund of Expenditure Revenue
SEG-Revolving** (Continuing)	Current SFY Prior SFY	Refund of Expenditure Refund of Expenditure

\* This chart may used only for determining coding of refunds of expenditure as defined in Policy item #3. Revenues must be recorded on FMS as revenues, regardless of appropriation type and/or period of receipt.

\*\* For prior SFY transactions in SEG-Annual and SEG-Continuing appropriations, contact your budget analyst for related appropriation transactions.